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Federal Communications Commission
Office of the Secretary

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

In the Matter of	)	
	)	
Amendment of the Part 69 Allocation	)	CC Docket No. 92-222
of General Support Facility Costs	)	

GTE's COMMENTS

GTE Service Corporation and
its affiliated domestic
telephone operating companies

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3. The FCC should commence a proceeding directed to increasing the residential Subscriber Line Charge to reflect reallocated GSF costs and other factors.

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In the Matter of

Amendment of the Part 69 Allocation of General Support Facility Costs) CC Docket No. 92-222

GTE's COMMENTS

GTE Service Corporation and its affiliated domestic telephone operating companies ("GTE"), in relation to the Report and Order and Notice of Proposed Rulemaking, FCC 92-440 released October 19, 1992 (the "Notice"), hereby submits the following comments:

BACKGROUND

The Notice (at paragraph 143, 147, 267) declines to create at this time a contribution charge to recover existing non-cost based support flows imposed by Commission regulations. Instead, the Notice proposes to change those Part 69 Rules that currently over-allocate costs to the special access service category.

Specifically, Section 69.307 of the Commission's Rules (47 CFR 69.307) requires exchange carriers to apportion General Support Facilities ("GSF") investment among categories based on the investment in (i) central office equipment, (ii) information origination/termination equipment, and (ii) cable and wire facilities excluding Category 1.3 (investment in subscriber lines). This results in an over-allocation of costs to both the special access and switched access categories, and an under-allocation to the common line category.

The Notice proposes to change Section 69.307 so that Category 1.3 investment is included in the apportionment formula.

DISCUSSION

1. GTE (i) supports the proposed change in the Part 69 allocation rules; and (ii) urges the Commission to reflect that change in the Price Cap Indices by appropriate Z-factor adjustments.

The proposed change in the apportionment formula should be adopted. The costs under examination are Non-Traffic Sensitive ("NTS") and are more properly recovered from the common line category. Correction of past erroneous allocations is much preferable to the creation of an explicit contribution charge. A new mandatory contribution charge would be likely to create an economic incentive for special access users to seek to avoid network configurations that would incur this charge.

However, merely changing the Part 69 allocation rules has no real effect on rate levels for Price Cap exchange carriers. A coincident change to the Price Cap indices is required to permit prices for the services that are most subject to competition to be adjusted to levels that better reflect underlying economic costs. The Commission should effect Z-factor changes that would adjust the applicable Price Cap indices to reflect the GSF reallocation.[1]

The proposed revision to the Part 69 rules will cause a huge shift in costs out of the special access category to common line.[2] In accordance with the Price Cap rules, this shift should be reflected through an adjustment to the Price Cap indices.[3]

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1 See 47 C.F.R. §61.45.

2 See the Notice at n.335. The reallocation will cause a significant movement of separated costs for GTE. Approximately $150 million will shift to Common Line from switched and special access. Switched access will be reduced approximately $120 million and special access will be reduced approximately $30 million, or about 18% of total Part 69 special access costs.

3 See 47 C.F.R. §61.45(d)(1)(vi).

Under rate-of-return regulation, prices for special access services were designed to recover the total revenue requirement for the category as calculated through the Part 69 process. Since Price Cap implementation used rate levels based upon separated revenue requirement, it is likely that many special access rates are still artificially higher than if they had been based upon the proposed reapportionment of costs. Correction of the Price Cap indices through Z-factor adjustments will permit exchange carriers to rectify past misallocations and allow more effective competition with Competitive Access Providers ("CAPs") and other service providers.

Accordingly: GSF reallocation should be coupled with appropriate Z-factor adjustments.

2. The Commission should act rapidly in order to permit exchange carriers to reflect Part 69 changes in the next annual Price Cap tariff filing.

Immediate Commission action is required in order to permit appropriate Z-factor adjustments to be reflected in the next annual Price Cap tariff filing. The Notice (at paragraph 259) requires filing of collocation tariffs in mid-February, 1993, for a mid-May effective date. The next annual Price Cap filing is scheduled for filing on April 1, 1993, for a July 1, 1993 effective date.

The Notice (at paragraph 14 and n.294) recognizes that the availability of collocation will foster the competitive efforts of CAPs and other interconnectors that compete with and/or provide replacements for special access high capacity services offered by exchange carriers. Prompt action is necessary to permit index adjustments that will encourage genuine competition in the same time frame as that within which exchange carriers are required to facilitate competition by CAPs. Lack of timely Commission action will continue the distorted pricing signals resulting from past Commission requirements.[4]

Accordingly: Prompt FCC action is required to permit timely recognition of the Part 69 cost change in the Price Cap process.

3. The Commission should begin a proceeding aimed at increasing the residential Subscriber Line Charge to absorb the impact of reallocated GSF costs and other factors.

As the Notice recognizes (at n.627), the shift of GSF costs into the Common Line category will cause only very minor increases in the Subscriber Line Charge ("SLC") since the current \$3.50/\$6.00 cap limits the amount of revenues that can be recovered directly from end users.[5] The capped SLC rate forces recovery of the balance of shifted costs through the per-minute Carrier Common Line ("CCL") rate. In most cases, the frozen penny-per-minute originating CCL rate[6] will cause the terminating CCL rate to increase dramatically since the denominator in the ratemaking formula is slightly more than half of all minutes of use.[7] With appropriate Z-factor adjustments to reflect GSF reallocation, GTE's Traffic Sensitive ("TS") rate would decrease approximately \$0.004, yet the terminating CCL rate would increase almost \$0.009.

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[4] See the Notice at paragraph 268.

[5] See 47 C.F.R. §69.104(e).

[6] See MTS and WATS Market Structure, CC Docket No. 78-72, Amendment of Part 67, CC Docket No. 80-286, Report and Order, 4 FCC Rcd 5048, 5053 (at paragraph 46) (1988).

[7] Terminating minutes are more than half of all minutes since WATS and other services with an open end are required to pay the terminating rate. See 47 C.F.R. §69.105(b)(1).

The current $3.50 SLC rate cap has been in effect since April 1, 1989,[8] more than three and a half years. It is certainly time for the FCC to review the residential SLC rate level. Recognition of the modest rate of inflation since early 1989 alone would justify an increase to $4.00. A Price Cap index change based on GSF reallocation will be another factor justifying a further increase. These factors, among others,[9] indicate the FCC should reexamine the SLC residential rate level.

The Commission should begin a process aimed at increasing the residential SLC to at least a $4.50 level. The process begun in 1984[10] whereby end users began paying SLC charges on a flat rate basis was reexamined and affirmed in 1987/1988.[11] Further, the impact of SLC charges upon subscribership levels has been monitored and no adverse impacts have been identified. The Commission itself foresees no adverse impact upon

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[8] MTS and WATS Market Structure, CC Docket No. 78-72, Amendment of Part 67, CC Docket No. 80-286, Report and Order, 2 FCC Rcd 2953, 2957 (1987) modified on reconsideration, 3 FCC Rcd 4543 (1988).

[9] See, for example: NYNEX Telephone Companies: Transmittal No. 116, Memorandum Opinion and Order, DA 92-1622 released November 30, 1992 (Chief, Common Carrier Bureau). If SLC loop quantities were revised for DS1-based services, total SLC revenues would decrease, thereby increasing upward pressures on the per-minute CCL rate.

[10] MTS and WATS Market Structure, CC Docket No. 78-72, Amendment of Part 67, CC Docket No. 80-286, Recommended Decision and Order, 49 Fed. Reg. 48,325 (1984), 1984 FCC LEXIS 1654, 57 Rad. Reg. 2d (P&F) 267 (1984), recommendations adopted with minor modifications, Decision and Order, 1984 FCC LEXIS 1475, 57 Rad. Reg. 2d (P&F) 511 (1984).

[11] MTS and WATS Market Structure, CC Docket No. 78-72, Amendment of Part 67, CC Docket No. 80-286, Recommended Decision and Order by the Federal-State Joint Board, 2 FCC Rcd 2324, 2328-2330 (1987), recommendations adopted with minor modifications, Report and Order, 2 FCC Rcd 2953 (1987), modified on reconsideration, 3 FCC Rcd 4543 (1988).

subscribership levels from a shift of $1.00 or less per line.[12] This process of transition toward cost recovery directly from end users ought to be continued in light of the passage of time and revisions to the GSF allocation process, and other new issues.

The multiline business SLC of $6.00 should not be increased since it already represents an amount approximately equal to the allocated interstate loop cost. The rate disparity between residential and multiline business SLCs is simply another form of subsidy that must be addressed by closing the rate level disparity over time. Further, the multiline services of exchange carriers, e.g., Centrex and key system loop services, are subject to intense competition from a number of substitutable services. Any increased multiline SLC charges would exacerbate existing competitive pressure and introduce regulatory distortion into those markets.

Adoption of this recommendation would have several benefits: (i) it would accommodate the effects of inflation by matching the level of current residential SLC contribution with that applied under the original Commission action; (ii) it would permit direct recovery from end users of much of the shifted costs of GSF and other factors; and (iii) in conjunction with Price Cap index adjustments, it would help position exchange carriers to compete with CAPs for switched access services by deloading both the TS and CCL rate levels.

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[12] The Notice, at paragraph 17, says:

> Expanded interconnection ... may shift some costs to the state jurisdictions through the separations process. There is no basis, however, for concluding that such a shift would threaten universal service....

Accordingly: the FCC should initiate a proceeding directed to increasing the residential SLC.

Respectfully submitted,

GTE Service Corporation and
its affiliated domestic
telephone operating companies

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